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ABSTRACT

This paper examines a variety of cash-generating school operations--student activity accounts, athletics, athletic user fees, other user fees, concessions, and cafeterias--and identifies areas where controls are needed. Specific techniques for ensuring effective cash controls are outlined. Internal-audit procedures are suggested that address the need for complete accountability for cash receipts. Finally, this paper focuses on problem prevention by having carefully developed, highly visible controls in place. It is recommended that the school business administrator establish the control structure, which should be comprised of simple and effective procedures. (LMI)

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WHAT HAPPENED TO THE CASH? EFFECTIVE CASH CONTROL

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WHAT HAPPENED TO THE CASH?

This could be the cry of an incredulous school business administrator, superintendent and school board; the cry of an alarmed auditor; or the cry of a cynical public.
The fact of the matter is that large amounts of cash are handled in the operation of school activities. And with the need to find new and increased sources of funding to support student activities and services in a time of severe budget constraints, many school districts are greatly expanding their cash generating operations.
If effective cash controls are not carefully in place, at best this lack of controls can lead to embarrassing questions and cynical comments; at worst it can lead to substantial losses.
No one should feel threatened by controls. Controls do not imply impropriety. They provide procedures for accounting for cash receipts, procedures that are simply good business practice designed for everyones protection.

The objectives of this presentation are to:
1. Examine a variety of cash generating school operations and identify areas where controls are needed.
2. Examine specific techniques for ensuring effective cash controls.
3. Suggest internal audit procedures that will address the need for complete accountability for cash receipts.
4. Focus on PROBLEM PREVENTION by having carefully developed highly visible (and hopefully, respected) controls in place.

It is my belief that the school business administrator (SBA) should establish the control structure - the systems and procedures to be followed - and then hold those directly involved in the various activities responsible and accountable. Keep the procedures as simple as possible, but be certain they are effective and are followed.

Now, let us consider a variety of revenue generating operations.

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STUDENT ACTIVITY ACCOUNTS

Responsible Person: Principal

In many school districts, student activity accounts have been the most troublesome and of the greatest concern in terms of effective cash controls, uniform operating procedures and accountability. These accounts often are the ones most in need of strengthened controls because they are operated loosely by advisors who haven't grasped the need for business-like procedures. The principal of the school is the manager of his/her building (particularly with increased emphasis on school based management) and is responsible for supervising student activity accounts and seeing that the established procedures are followed, accountable to the SBA. The principal is a key player in the control process and is totally in the responsibility loop.

For years, the national principals' associations have been emphasizing this responsibility to their membership, suggesting ways of addressing it, and cautioning about the possible consequences for failure to do so. Nevertheless, in too many situations supervision and control by the principal doesn't happen, or happens only after a problem arises resulting in considerable embarrassment. Controls are a MUST for credibility in managing these accounts.

A local school board policy delineating this responsibility is very helpful.

Generally, student activity accounts in elementary (and some smaller middle and high) schools are maintained in a single account by the principal and a secretary or faculty member. In larger middle schools and especially in high schools where accounts must be maintained for several different student activities, very often a faculty member is paid a stipend to serve as activity treasurer. Usually, a single control account is maintained with subsidiary accounts for each of the separate school activities. The accounts can be maintained manually, or by using one of the computer software programs available for this purpose.

The following SUGGESTIONS are applicable, no matter how large the operation or how many subsidiary accounts are maintained.

In general, dual control and segregation of functions should be utilized to the extent that this is possible and practical in terms of available staff.

Two (2) adult signatures should be REQUIRED on all checks.

Bank statements should be reconciled monthly with the check book register. The second signer of checks should perform the reconciliation.

A duplicate pre-numbered receipt book should be used. A receipt should be completed and signed by the account treasurer for all funds received -- the original to be given to the depositor, the duplicate to remain undetached in the receipt book. The imprinted receipt received from the bank when the deposit is made should be stapled to the matching duplicate in the receipt book.

The pre-numbered receipt books should be issued through and a perpetual inventory of them maintained by the SBA's office.

Deposits from different sources, events or activities should be made separately. They should not be combined or co-mingled.

ALL disbursements should be by check and should have supporting documentation -- an original vendor invoice or an itemized sales receipt or an itemized payment voucher signed by the person submitting the item for payment.

There should be NO CASH PAYMENTS for any purpose.

When an item is paid, the documentation should be marked PAID, with the date and check number.

Any voided checks should be retained with other check records.

Tickets sold for functions should be numbered and retained with the completed financial report for the event for audit purposes.

Schools with "stores" should use a cash register with a journal tape and receipt issuing capability. The register should have a specific "change bank" for making change. All sales should be rung in the register, with a receipt given to each purchaser. The principal (or designee) should have possession of the control key for the register and should "read" the register total at least weekly depending on volume. The cash total, less the change bank, should be matched to the register reading and deposited intact at least weekly after allowing for any over/short adjustment, leaving the original change bank in the register. All register reading tapes and journal detail tapes should be dated and retained for audit purposes.

The change bank and any carry over receipts should be kept day to day in a secure place (CAUTION: do not leave in a locked cash register. Expensive damage could occur if a break-in were attempted.)

All cash receipts for the store should be deposited intact and all payments for inventory should be by check.

All receipts, disbursements, documentation, etc., for the school store should be a part of and be handled in exactly the same manner as recommended for student activity accounts.

A simple filing system should be used for all records -- a folder for paid invoices, etc., filed by check number; a folder for canceled checks filed by check number; a folder for reconciled bank statements filed by month.

Sales of merchandise (magazines, fruit sales, etc.) are to some extent self controlling because the buyer will be expecting delivery of the product. The amounts turned in by students should be carefully recorded and matched to individual sales sheets. The sum of the individual sales sheets must reconcile with the deposit totals.

Pupils soliciting for yearbook patrons, scholarship fund donations, etc., should use pre-numbered duplicate receipts as described previously. Cash turned in by each pupil must equal the total of the amounts recorded on receipts. Total deposits must equal the sum total of cash turned in by individual pupils.

In all instances, backup documentation should be retained to maintain a paper trail for audit purposes.

Student officers and leaders should be involved as much as possible in the financial planning and budgeting for their activities. They should know how much money is raised, how it is controlled and deposited, and what it is spent for. This approach is not only a valuable learning experience for pupils, but it fosters an atmosphere of openness regarding financial operations that is very positive.

Since student activity accounts frequently have large average bank balances for extended periods of time, schools should negotiate from a position of strength with local banks with regard to the most favorable service charge/interest rate arrangement.

A complete financial report detailing all receipts and disbursement should be submitted by each activity to to the SBA at least semi-annually.

ATHLETICS

Responsible Person: Athletic Director

Suggestions:

Ticket sales should be controlled by rolls of numbered tickets -- different colors for different admission prices.

Cash must equal number of tickets sold by individual tickets sellers and in total for the event.

If complimentary tickets are given out, they should be a separate color. A list of recipients should be maintained.

If turnstyles are used, tickets collected per style should equal the style count reading.

If turnstyles are not used, ticket takers should tear tickets to prevent re-use or resale.

Ticket takers should be monitored to prevent "palming" tickets for re-use or resale, to prevent money being "slipped" to gain admission and to prevent admission to anyone (friends, etc.) without a ticket.

If possible, two people together should count cash receipts and reconcile cash with the number of tickets sold.

A ticket sales report should be prepared for each event, signed by those who reconciled cash and tickets sold, and retained for audit purposes, with a copy to the SBA.

Receipts should be deposited immediately with receipted copy of the deposit slip mailed directly by the bank to the SBA.

Ticket rolls should be issued through and a perpetual inventory of them maintained by the SBA's office.

ATHLETIC USER FEES

Responsible Person: Athletic Director

Suggestions:
Fee payments should be by check, payable to the appropriate school account.

A duplicate pre-numbered receipt book should be used. A receipt should be completed and signed for all funds received -- the original to be given to the student making payment, the duplicate to remain undetached in the receipt book.

Receipts should be deposited promptly in the appropriate school account, with receipted copy of the deposit slip mailed directly by the bank to the SBA.

Deposit totals should reconcile with receipt book totals.

The pre-numbered receipt books should be issued through and a perpetual inventory of them maintained by the SBA's office.

SCHOOL BUS USER FEES, BUILDING RENTAL FEES, ANY PROGRAMS WHERE PARTICIPANTS PAY FEES (SUMMER SCHOOL, EVENING SCHOOL, EXPENDABLE MATERIALS, ETC.)

Responsible Person: SBA's Designee

Suggestion:
Same procedures as for the Athletic User Fees

CONCESSIONS

Most school districts have concession operations, particularly for athletic events. Many districts are expanding these operations (high profit souvenir sales, for example) to generate increased revenues in a time of severe budget constraints. Concession operations are "big business" handling substantial amounts of cash, depending on the size of the operation. Significant losses in cash and merchandise can easily occur if not carefully controlled. Suggestions for establishing effective operating controls and internal audit procedures to prevent losses are as follows.

CONCESSIONS GENERALLY ARE OPERATED IN ONE OF THE FOLLOWING WAYS:

A. CONCESSIONS OPERATED ENTIRELY BY THE SCHOOL DISTRICT
SUGGESTIONS:
At each concession stand:
Use cash registers with programmable item keys and a journal tape (cost under $200 each). These registers generate a summary tape showing the quantity sold and cash receipts for each item. The journal tape shows the detail of each sale made. These tapes are invaluable in reconciling cash with stock as well as providing internal audit control analysis of sales. (Manager holds register control keys.)

Use a controlled (railings) walk-through line where customers pay a cashier at exit for purchases (one person handling cash).

Provide each register with a suitable change bank. (The change bank for concession operations should be carefully secured from event to event.)

Provide each register with a locking bag to turn in cash.

Stock is money and must be carefully controlled. Have a strict stock accountability system. Utilize a stock sheet that lists all items sold on the stand and shows the starting count, plus adds, minus returns, minus credits, equals sold, times unit price, equals cash due. The total cash called for on the stock sheet must reconcile with the actual cash receipts and the cash register tape summary readings - within reasonable limits. This reconciliation MUST be done after every event to hold employees accountable.

If volume warrants, do cash pickups (using locking bags) during the event. Bag is unlocked in office and cash is counted, verified by a second person and credited to appropriate register.

If outside providers (own product/own help) are allowed on the premises to operate specialty food carts (ice cream - yogurt, popcorn, pizza, nachos, etc.) in a food court concept, have cashiers to sell numbered, color-coded tickets for these items from a single ticket booth. (More, if volume requires.) Operators don't handle cash, thus controlling the possibility of "skimming". Cash must reconcile with tickets sold. Sales amount for each item is determined by color-coded tickets sold and is the basis for paying the operator his agreed percentage. Percentages will vary depending on high profit or lower profit items.

If "hawkers" are used, they are issued a specific number of items and must turn in the cash for items sold. Generally, they are paid 12-15% of sales and must absorb any shortages.

Person receiving delivery of merchandise from vendors should verify quantities carefully.

Carefully safeguard merchandise between events - especially souvenirs and cups (cup count is used to control soft drink sales). Store in areas with controlled key access.

Maintain a perpetual inventory control of all items (food, cups, souvenirs, speciality coupons, etc.)

Be alert to the possibility of employees washing out and reusing cups or bringing in their own product (hot dogs, etc.) to sell, thus circumventing the stock control, under-ringing the cash register, and "skimming" the money received from the sale of these items. The use of cashiers greatly reduces the possibility of these things happening

If any irregularities are noticed (under-ringing, etc.) do an immediate cash register audit (cash, less change bank should equal register reading). If cash is "over" under-ringing may be taking place with the intent of taking the "over cash" out later; if cash is "short" it may have been taken and under-ringing is being utilized to make it up. However, don't make any accusations. Investigate further and take appropriate action.

Employees must clearly understand that they are responsible for the cash/register reading/stock reconciliation on their stand and nothing is to be consumed personally or given away to friends, etc.

Spoiled items should be retained and turned in for credit.

Cashiers should turn in a "void sheet" to account for any errors in registering sales.

Employ a knowledgeable, reliable person on a per diem basis to manage the overall operation (order supplies, hire help, set up and supervise).

Employ a reliable person (per diem) to control stock (receive, count, issue, count returns) from a central location.

Employ a reliable person (per diem) to assist the manager (provides dual control) in counting money, making up the deposit and preparing the sales report reconciling the cash received/register reading/and stock sold at each location. Copies of the deposit slip and sales report with reconciliation documentation attached should be submitted to the School Business Administrator immediately after the event with a sign-off by the manager and assistant.

Payment for all merchandise, supplies, and employee services should be handled through the regular school district accounts payable and payroll process.

Have appropriate insurance coverage.

Observe all local safety, health and sanitation requirements.

Comply with state/local meal tax requirements.

Have a full audit (financial and procedural) of the operation annually by a source experienced in the concession business..

B. CONCESSION STAND(S) OPERATED BY LOCAL PARENT, SERVICE, OR STUDENT GROUPS WITH ITEMS SOLD SUPPLIED BY SCHOOL DISTRICT.
Operated on a strict stock/cash basis. School district provides and controls all stock as indicated in Item A. Group operating stand provides workers to do set up, serving, and clean up. They turn in cash for all sales. Cash is reconciled with stock sold. They must absorb any cash shortages from the percentage of gross receipts (based on stock sold) that their group receives (ranging from 15%-25%).

SUGGESTIONS:
Be alert to possible cup re-use or own product sales.
Have a contract with the group stipulating all requirements.
All applicable suggestions in Item A apply here.

C. CONCESSIONS OPERATED BY AN OUTSIDE CONCESSIONAIRE
Concessionaire handles entire operation - pays school district a percentage (ranging from 35%-45%) of gross receipts.

SUGGESTIONS:
Large companies and many small independents are completely reliable. However, be aware that some small independents "skim off the top" and under-report gross receipts.

Insist that item programmable cash registers with journal tapes are used for all sales (as outlined in Item A).

Require a sales report with cash register summary tapes and stock sheet backup for each event.

Require payment of your percent share after each event.

Have right of price approval for all items sold.

Require concessionaire to carry appropriate liability insurance coverages, have necessary licenses, and be in compliance with all local safety, health and sanitation requirements.

Insist on a clean, courteously staffed, efficient operation.

Continue to handle the sales of programs and souvenirs yourself, if you wish, or have concessionaire handle these items.

Have a strong written contract with concessionaire outlining all conditions and operating requirements. Include an immediate revocation clause for failure to accurately report gross receipts. Avoid contracts based on "net receipts" or "profit" - too nebulous to verify precisely.

From time to time, and especially before negotiating a renewal contract with the concessionaire, engage a person knowledgeable about concessions to observe and evaluate the operation and provide you with a written report.

D. CONCESSIONS OPERATED BY BOOSTER CLUB, ETC., INDEPENDENT OF SCHOOL DISTRICT.

The school district turns over the operation of concessions to a Booster Club (Athletic Boosters, Band Parents, etc.). The group handles the entire operation and keeps all the receipts to support the activities of their focus group.

Receipts are handled independent of and beyond the control of the school district. (In many instances booster group isn't even required to provide the school district with a "courtesy" financial report of their operations!)

Suggestion:
Many of the arrangements with booster groups predate difficult financial times for school districts. Concessions can be very profitable! Local pressure and politics aside, a school district might consider running concessions under options A, B or C where the revenues generated would come directly to the district for use in supporting a broader base of student activities than are supported by focus groups.

CAFETERIAS

Responsible Person: Food Service Director

Some schools sell lunch tickets daily or weekly, before school, at lunch time, etc. However this is done, rolls of numbered tickets should be used. Different color tickets should be used for different lunch option prices. Cash, less change bank, must equal tickets sold. The tickets are collected as lunches are served and are used to determine the lunch count for reimbursement reports, etc. After the tickets are counted they should be banded, the count noted on the top ticket, secured to prevent reuse/resale, and forwarded to the food service director with the daily (or weekly) sales report.

In other situations, particularly larger operations and secondary schools with several menu offerings, a cafeteria line is used and participants pay cash for their selections as they pass the cashier. In this type of operation cash registers with programmable item keys and a journal tape should be used. These registers generate a summary tape showing the quantity sold and cash receipts for each item. The journal tape shows the detail of each sale made. These tapes are invaluable in providing internal audit control analysis of sales as well as being very useful in menu planning, inventory control, etc. Cash, less change bank, should equal the cash register reading. Each day, the cash reading and item summary tape and the journal detail tape should be forwarded to the food service director with the sales report.

In all instances, cash receipts should be deposited daily with the receipted copy of the deposit slip mailed directly by the bank to the food service director.

The change bank at each location should be kept in a secure place. (CAUTION: don't use a locked cash

register or locked refrigerator -- expensive damage can result in an attempted break-in.)

The director must have an effective inventory control system in place in each location to prevent loss.

The director should calculate the product yielded frequently to be certain it falls within acceptable limits as a measure of portion control, inventory control, etc.

The director's office should reconcile cash receipts and sales reports for each location on a DAILY basis.

Keys to refrigerators, freezers and storage areas must be carefully controlled.

CONCLUSION

Hopefully, some of these ideas and suggestions will be useful in helping SBA's strengthen controls that will be highly visible and effective and will provide a precise audit trail for cash receipts and transactions at the point of origin and beyond, through the entire accountability cycle.